

Requesting & Managing FSA Funds

CHAPTER 2

Except for funds received as an administrative cost allowance (ACA), FSA program funds received by a school are held in trust by the school for students, the Department and, in the case of FFEL Program funds, for lenders and guaranty agencies. The cash management regulations discussed in this chapter establish rules and procedures that a school must follow in requesting and managing FSA Program funds. These rules and procedures also apply to third-party servicers.

DRAWING DOWN FSA FUNDS

Current Funding Level & G5

A school's Authorization (Current Funding Level (CFL) in Pell, ACG/SMART Grant, and Cash Control Account (CCA) in DL and **TEACH**,) is the amount of program funds a school is eligible for in the year and program in question.

Schools operating under the advance payment method receive an initial CFL in Pell and Direct Loan funds against which they can make drawdowns. Schools operating under reimbursement do not receive an initial CFL. Schools do not receive an initial CFL for the ACG, SMART, and TEACH Grant programs. For the ACG, SMART, and TEACH Grant programs, only when a school submits actual disbursements to COD and they are accepted will the school receive an initial or increase in its CFL or CCA.

G5 is a delivery system that supports program award and payment administration. Schools may use G5 to request payments, adjust drawdowns and report expenditures. G5 also provides continuous access to current grant and payment information, such as authorized amounts, cumulative drawdowns, current award balances and payment histories.

A school's *available balance* is the amount of cash available for a school to draw down from the Grants Administration and Payments System through G5. A separate Authorization is maintained for each program by award year.

The Advance Payment method

Under the advance payment method, a school may submit a request for Pell Grant, Direct Loan and Campus-Based program funds through G5 at any time — prior to or after disbursing aid to eligible students and parents. If G5 accepts a school's request for funds, it will make an electronic funds transfer (EFT) of the amount requested to a bank account designated by the school.

Chapter 2 Highlights

- » Drawing down funds
- » Maintaining & accounting for funds
- » Excess cash
- » Administrative Cost Allowance
- » Fiduciary responsibility; escheating & garnishing prohibited
- » Returning funds

Funding methods

Currently, there are three funding methods under which a school requests funds from the Department:

- the advance payment method;
- the reimbursement payment method; and
- the cash monitoring payment method.

The Department has sole discretion in determining the funding method a school uses to request FSA program funds.

Cite: 34 CFR 668.162, except as noted.

Self-assessment tool for fiscal management procedures

You can evaluate your school's procedures by referring to "Fiscal Management" in the *Managing Funds* module of FSA Assessments at:

<http://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html>

Advance requests for Perkins funds

Before requesting funds from its Perkins FCC, a school should compare its anticipated available Perkins funds (cash on hand + expected collections + expected interest + expected reimbursements for cancellations) against its anticipated Perkins disbursements. A school should take into account all sources of Perkins funds when determining whether it needs to draw down any additional amounts to cover disbursements.

Just-in Time Payment Method

Since the 1999-2000 Award Year, the Department has administered the Pell Grant Just-In-Time (JIT) Pilot Project as a method through which schools received funds more quickly than through the advanced funding method. Over the last few years, advancements to the Common Origination and Disbursement System and G5 have resulted in a 24-hour turn around time from a school submits disbursement records to the funds being available to be drawdown. Since there is no longer a need for the JIT program, it is being discontinued with the start of the 2009-2010 Award Year.

A school may not request more funds than it needs immediately for disbursements the school has made or will make to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school receives those funds.

G5 does not automatically accept a request for funds from a school under the advance payment method. For example, the Department may reject a request if the amount of the request exceeds the amount of funds the school is authorized to draw down.

Within Advance Payment is a system called *Pushed Cash* through which Some Direct Loan Schools receive funds. In Pushed Cash the Department automatically deposits (pushes) cash in a Direct Loan school's bank account based on disbursements that are submitted timely and accepted. Under the Pushed Cash method, the Department accepts a disbursement for a student only after accepting an origination and Master Promissory Note for that student. For further information see the 2009-2010 Common Origination and Disbursement (COD) Technical Reference. For the time being, ED will continue to offer Pushed Cash in the Direct Loan Program.

Reimbursement & Cash Monitoring payment methods

Under these payment methods the Department releases funds to the school after the school has made the disbursement to the student (or parent borrower). Since relatively few schools are required to use these methods, we'll discuss them separately (see boxed text).

Reimbursement payment method

The Department places a school on reimbursement if it determines there is a need to monitor strictly the school's participation in the FSA programs. The school must first disburse FSA program funds to eligible students and parents before it can request those funds from the Department. As part of its request, the school must:

- identify the students and parents for whom it is seeking reimbursement; and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive, and received, FSA program funds.

The school's reimbursement request is approved if the Department determines that each student and parent included in the request was eligible for, and received, the proper type and amount of FSA program funds. After the reimbursement request is approved, the Department transfers electronically the appropriate amount of FSA funds to the bank account in which the school maintains its federal funds.

Cash monitoring payment method

The cash monitoring payment method works the same way as the reimbursement payment method – a school must first make disbursements to eligible students and parents before requesting FSA funds – but has less onerous documentation requirements. Unlike the reimbursement payment method where a school must provide detailed documentation for each student to whom it made a disbursement, the Department may relax the documentation requirements and provide funds to a school in one of two ways:

1. **Heightened Cash Monitoring 1 (HCM1).** After a school makes disbursements to eligible students, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method.
2. **Heightened Cash Monitoring 2 (HCM2).** After a school makes disbursements to eligible students, it submits only the documentation specified by the Department. The Department may tailor the documentation requirements for schools on a case-by-case basis.

If the Department determines that a school should be placed on reimbursement, HCM1 or HCM2, it notifies the school. In the notice, the Department explains why it is taking this action, describes how the payment method works, identifies the documentation (if any) that the school must submit, and may provide other instructions to the school.

In addition, if a school is placed on reimbursement, HCM1 or HCM2 either because it is not financially responsible, or qualifies as a financially responsible school under the Zone Alternative in 34 CFR 668.175(d), its administration of the reimbursement or cash monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the reimbursement or cash monitoring requirements, as applicable.

Limitations on the use of FFEL funds for schools on reimbursement or cash monitoring

A school that is placed on reimbursement or cash monitoring:

- may not disburse FFEL Program funds to a borrower until the Department approves a request from the school to disburse funds to that borrower, and
- if prohibited by the Department, may not certify a loan for a borrower until the Department approves a request from the school to make the certification for that borrower (this restriction becomes effective on the date that the Department notifies a school that it must obtain approval from the Department to certify loans).

The school must provide documentation demonstrating that each borrower included in the request is eligible to receive the disbursement or certification. The documentation must be provided to the Department or an entity approved by the Department for this purpose (for example, a certified public accountant, financial aid consultant or guaranty agency).

Until the Department approves a request, the school may be:

- prohibited from endorsing a master check or obtaining a borrower's endorsement of any loan check the school receives from a lender,
- required to maintain loan funds that it receives from a lender via EFT in a separate bank account, and
- prohibited from certifying a borrower's loan application.

Because of the additional time it takes the Department to review documentation submitted by the school, the school may delay returning for 30 days FFEL Program funds that were provided by a lender via EFT or master check.

Note: This delay provision is applicable only in the FFEL Programs, see 34 CFR 668.167(c) and (d).

MAINTAINING AND ACCOUNTING FOR FUNDS

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of FSA funds in the account. A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other action.

A school is not required to maintain a separate bank account for FFEL Program funds that the school receives from a lender by EFT. A school must maintain and account for FFEL Program funds in the same manner required for other FSA program funds.

When a school does not maintain a separate account

A school has a fiduciary responsibility to segregate federal funds from all other funds and to ensure that federal funds are used only for the benefit of eligible students. Absent a separate bank account, the school must ensure that its accounting records clearly reflect that it segregates FSA funds. Under no circumstances may the school use federal funds for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of FSA funds or subjects FSA funds to liens or other attachments (such as would be the case with certain overnight investment arrangements or sweeps). Clearly, carrying out these fiduciary duties limits the ways the school can otherwise manage cash in an operating account, when that account contains FSA funds.

If a school does not maintain a separate account for FSA program funds, its accounting and internal control systems must:

- identify the balance for each FSA program that is included in the school's bank or investment account as readily as if those funds were in a separate account; and
- identify earnings on FSA program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the recordkeeping requirements described in *Volume 2, chapter 9*.

Bank account notification requirements

For each account that contains FSA program funds, a school must identify that FSA funds are maintained in the account by:

- including the phrase *federal funds* in the name of the account, or

Maintaining & accounting for funds

34 CFR 668.163

Recordkeeping requirements

34 CFR 668.24

Not applicable to some programs

The cash management requirements are not applicable to the state grant and scholarship programs. The Leveraging Educational Assistance Partnership Program (LEAP—formerly the State Student Incentive Grant [SSIG] Program), the Special Leveraging Educational Assistance Partnership (SLEAP), the Robert C. Byrd Honors Scholarship (Byrd) Program and, if a State is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the states.

Timely return of funds

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in *Volume 5, chapter 2*. This discussion also defines **timely return of funds** for a school that maintains FSA program funds and general operating funds in the same bank account.

Additional Requirements for Perkins Loan funds

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins program. The interest earned on the school's Perkins funds is not included in the \$250 maximum award year interest the school is permitted to retain.

A school may deduct from the interest earned any bank or service charges incurred as a result of maintaining the fund assets in an interest-bearing account, and deposit only the net earnings.

If a collection agency or third-party servicer receives funds directly from Perkins borrowers, it must immediately deposit those funds in a school trust account. The agency or servicer may open and maintain the account, but the funds in it belong to the school. If the funds will be held for more than 45 days, the account must be interest bearing.

Bank notification via UCC-1 form

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase federal funds was established to reduce the possibility that a school could misrepresent federal funds as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from the requirement.

- notifying the bank or investment company of the accounts that contain FSA funds and keeping a copy of this notice in its records and, except for public institutions, filing a Uniform Commercial Code Form (UCC-1) statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

Interest-bearing or investment account

FSA program funds must be maintained in an interest-bearing account or an investment account unless:

- the school drew down less than \$3 million of these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year, or
- the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year.

An investment account must consist predominantly of low-risk income-producing securities. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on FSA funds maintained in an interest-bearing account or an investment account that exceeds \$250 per award year must be remitted to the Department by June 30 of that award year (see sidebar). A school may keep up to \$250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining the account.

Remitting Interest

The fastest, most efficient way to remit interest is through the G5 Website at: <http://www.g5.gov>

A school with a user ID and password can go to the main menu and select "Refunds" then "Interest." They will be taken to the screens through which they can send ED interest.

Schools can also return excess interest income to ED by check. The check should be sent to:

U.S. Department of Education
P.O. Box 979053
St. Louis, Missouri 63197-9000

The school should note on the check the school's DUNS number and Document Award Number, and it should also indicate that the remittance is for interest earned.

EXCESS CASH

As mentioned earlier, under the advanced payment method a school must disburse funds no later than three business days following the date the school receives them. The Department considers excess cash to be any amount of FSA funds, other than Perkins Loan funds, a school does not disburse to students or parents by the end of the third business day following the date the school –

- received those funds from the Department; or
- deposited or transferred to its Federal funds account previously disbursed FSA funds received from the Department, such as those resulting from award adjustments, recoveries, or cancellations.

Sometimes a school cannot disburse funds in the required 3 days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled or a change in a student's award as a result of verification. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

Allowable excess cash tolerances

A school may retain for up to seven days an amount of excess cash that does not exceed one percent of the total amount of funds the school drew down in the prior award year. The school must return immediately to the Department any amount of excess cash over the 1% tolerance and any amount remaining in its account after the seven-day tolerance period.

The Department reviews schools to determine where excess cash balances have been improperly maintained. Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school.

Where excess cash balances are disproportionately large or where they represent a continuing problem with the school's ability to responsibly administer the FSA programs, the Department may initiate a proceeding to fine, limit, suspend or terminate the school's participation in one or more of the FSA programs. For more on fines and other actions against schools, see *Volume 2 – School Eligibility and Operations*.

Generally, a check is issued when the school releases a check provided by the lender, mails the check to the student or parent, or notifies the student

Excess cash

34 CFR 668.166

The excess cash regulations do not apply to the FSA funds that a school receives under the Just-in-Time payment method.

Excess cash tolerances

34 CFR 668.166(b)

Three-day rule

A school must disburse FSA funds as soon as administratively feasible but no later than three business days following the date the school received those funds.

Cite

34 CFR 668.162(b)(3)

Excess cash rules

In general, excess cash is any FSA funds other than Perkins that are not disbursed by the end of the 3rd business day after funds are received from the Department.

Cite

34 CFR 668.166

The cash management regulations allow a school to hold FFEL funds for up to 10 days if the student is expected to become eligible in that time

Cite

(34 CFR 668.167(b) and (c)).

The verification regulations provide a 45-day exception for holding FFEL loan funds.

Cite

34 CFR 668.58(c)

FFEL three-day rule

34 CFR 668.167(b)(2)

Holding and returning FFEL funds

- Basic requirement to return FFEL funds
34 CFR 668.167(b)(1)
- Additional 10 days
34 CFR 668.167(b)(2)
- If the borrower did not complete the number of clock hours or credits in the previous payment period
34 CFR 668.167(c)(1)(i)(A)&(B)
- If the student has not met all the FFEL eligibility requirements and the school expects the student to meet them within the 10 days
(34 CFR 668.167(c)(1)(ii)(A)&(B))
- If the school is on heightened cash monitoring
34 CFR 668.167(d)&(f)
- Verification delay
34 CFR 668.58(c)

or parent that a check is available for immediate pickup. However, upon finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

Holding FFEL funds if student is temporarily ineligible

Once guaranty agency approval is obtained and the lender has determined that it has an active MPN for the borrower, the lender will send Stafford loan funds to your school in the appropriate amount for each disbursement to the borrower or parent. At the request of the borrower, the lender will send the funds directly to the borrower if he or she is enrolled in a foreign school. For a PLUS, loan funds are sent in at least two disbursements to the school by EFT or by a check made copayable to the school and the parent borrower.

When a school receives FFEL Program funds from the lender by EFT or master check, it usually must disburse the funds within 3 business days. If the FFEL lender provided the loan funds through a check requiring the endorsement of the student or parent, the school must credit the student's account or issue a direct disbursement to the eligible student (or parent borrower) no later than 30 calendar days after the school receives the funds.

Returning FFEL funds promptly

For purposes of the cash management regulations and this discussion, returning funds promptly means that a school may not delay its normal process for returning FFEL Program funds to lenders.

Cite

FFEL: 34 CFR 668.167

In some cases, your school may receive the loan funds at a point when the student is temporarily not eligible for a disbursement—for instance, if the student needs to complete the clock hours or credit hours in the first half of the loan period (for an academic program without terms). If you expect such a student to become eligible for disbursement in the immediate future, your school has an additional 10 business days to disburse the funds. In effect, this means that your school can wait 13 days after receipt of the EFT or master check (40 days for a check requiring endorsement) to make a disbursement to a student who is expected to regain eligibility during this 10-day window.

A school must return FFEL Program funds that it does not disburse by the end of the initial or conditional period, as applicable, promptly but no later than 10 business days from the last day allowed for disbursement. However, if a student becomes eligible to receive FFEL Program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

The requirement that a school return funds no later than a certain number of days means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business on the last day of that period.

Holding FFEL Stafford loan funds for verification

If you have certified an FFEL Stafford Loan for a student who was selected for verification, and the loan funds arrive before verification is completed, your school may hold the loan proceeds for up to 45 days. If the applicant does not complete the verification process within the 45-day period, your school must return the loan funds to the lender.

If the student's eligibility was reduced as a result of verification, you may make the full disbursement if any overpayment can be eliminated by reducing subsequent disbursements for the applicable loan period. (You must advise the lender to reduce the subsequent disbursements.) If the overpayment cannot be eliminated in subsequent disbursements for the applicable loan period, your school must return the overpayment to the lender.

Administrative Cost Allowance

34 CFR 690.10(b) and 34 CFR 673.7

If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.

ADMINISTRATIVE COST ALLOWANCE (ACA)

The ACA is an annual payment calculated by ED and automatically deposited in the school's account to help offset the costs of administering the FSA programs. The Department reimburses schools participating in the Pell Grant \$5 per award year for unduplicated recipients at the school who receive a Pell Grant. For the Campus-Based Program, the ACA is taken from the school's federal allocation and the maximum amount permissible is up to 5 percent of the sum of the loans advanced in Perkins, the total earned compensation in FWS, and the total awards to recipients in FSEOG.

For the Campus-Based Programs the ACA is not a separate allowance sent to the school. Rather, the school has the option of taking its Campus-Based ACA out of the annual authorizations the school receives for the FSEOG and FWS Programs and/or from the available cash on hand in its Perkins Loan fund. A school may draw its allowance from any combination of Campus-Based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program and as long as the school has disbursed funds to students from that program during the award year.

A school must use its administrative costs allowance to offset its cost of administering the Pell Grant, FWS, FSEOG, and Federal Perkins Loan Programs. Administrative costs may include the expenses incurred in carrying out a school's student consumer information services requirements. In addition, a school may use up to 10 percent of its ACA that is attributable to the school's expenditures under the FWS Program to pay the administrative costs of conducting community service programs.

Reminder

Schools' fiduciary responsibilities

34 CFR 668.14(b)(1) and 34 CFR 668.161(b)

Example of a policy to prevent escheating

Typically, each state establishes the useful life of a check or bank draft used to disburse FSA program funds. After this established date, the check cannot be negotiated and the proceeds of an uncashed check normally escheat to an unintended third-party (the state or the institution).

In state A, a bank check has a useful life of 180 days. In order to prevent FSA funds from escheating to a third-party, the Business Office at School A, at the end of each month, identifies all outstanding uncashed checks containing FSA funds. Prior to the 180th day, the Business Office voids the uncashed checks and restores the funds back to the applicable FSA program.

FIDUCIARY RESPONSIBILITY

Except for funds received by a school for administrative expenses and for funds used for the Job Location and Development Program, funds received by a school under the FSA programs are held in trust for the intended student beneficiaries. As a trustee of those funds, a school may not use (or use as collateral) FSA funds for any other purpose.

FSA funds are awarded to a student to pay current year charges. Notwithstanding any authorization obtained by a school from a student or parent, the school must pay:

- any remaining balance from loan funds by the end of the loan period, and
- other remaining FSA funds by the end of the last payment period in the award year for which they were awarded.

A school that fails to disburse funds by those dates is in violation of the Department's cash management regulations.

In addition, a school has a fiduciary responsibility to –

- safeguard FSA funds,
- ensure FSA funds are used only for the purposes intended,
- act on the student's behalf to repay a student's FSA education loan debt when the school is unable to pay a credit balance directly to the student, and
- return to the Department any FSA funds that cannot be used as intended.

RECOVERY OF UNCLAIMED FSA FUNDS (PROHIBITION ON ESCHEATING)

A school must return to the Department, lender, or guaranty agency, any FSA program funds, except FWS Program funds, that it attempts to disburse directly to a student or parent if the student or parent does not receive or negotiate those funds. (For FWS Program funds, a school is required to return only the Federal portion of the payroll disbursement.

A school must have a process that ensures FSA funds never escheat to a state, or revert to the school or any other third party. A failure to have such a process in place would call into question a school's administrative capability, its fiscal responsibility and its system of internal controls required under the FSA regulations.

Timeframe for returning unclaimed funds

If a school attempts to disburse the credit balance by check or EFT and the check is not cashed or the EFT is rejected, the school must return the funds no later than 240 days after the date it issued that check or made the EFT.

However, if a check is returned to a school, or an EFT is rejected, the school may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the funds were returned or rejected.

In cases where the school does not make another attempt, the funds must be returned before the end of the initial 45-day period.

The school must cease all attempts to disburse the funds and return them no later than 240 days after the date it issued the first check.

GARNISHMENT OF FSA FUNDS PROHIBITED

No FSA grant, loan, or work assistance (or property traceable to that assistance) is subject to garnishment or attachment except to satisfy a debt owed to the Department.

A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt.

By law, FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

Timeframe for returning unclaimed funds

34 CFR 668.164(h)

Undelivered Perkins funds

If a portion of the undelivered credit balance consists of Perkins funds, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income in Part III, Section A of the FISAP.

Garnishment/Attachment Prohibited

HEA 488A(d)

Reminder

Unpaid FWS Wages

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account.

If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

RETURNING FUNDS

There are a number of reasons why a school may have to return funds to the Department including –

- the return of FSA funds required when a school must correct an overaward or an overpayment, and the return of funds required when a student withdraws or otherwise ceases attendance during a payment period or period of enrollment (The return of funds under these circumstances is discussed in Volume 5.);
- having FSA funds on hand with no expectation they can be disbursed to other eligible students within three days (excess cash);
- owing the Department for expenditures disallowed during a program review or audit;
- having earned interest on its federal funds (other than in its Perkins account) in excess of \$250.00; and
- holding large Federal Perkins Loan cash balances on hand ((COH) balances on the FISAP).

Schools can return money to the Department (including excess interest) using the Electronic Refund Functionality in G5 for up to 10 years following the end of the award year. For complete instructions on returning funds through G5, see The Blue Book and the G5 Refund Manual.

Only in exceptional circumstances should a school return funds by sending a check instead of using the electronic refund functionality in G5.

Returning funds by depositing them in a federal funds account

For funds obtained from the Department, a school meets the Return requirement if it deposits or transfers the funds into its federal account no later than 45 days after the school determined that a student withdrew or received an overpayment the school was responsible for returning (See Volume 5 — *Overawards, Overpayments and Withdrawal Calculations*.)

If a school has not drawn down federal funds or has made disbursements that exceed the amount the school has drawn, the school does not need to deposit funds in its federal account. Of course, the school's accounting records must show that school funds were used to credit the student's account.

Returning funds by depositing them

34 CFR 668.173(b)

Downward adjustment of Pell, ACG/ SMART, TEACH Grant, and Direct Loan required

All Pell, ACG/SMART, TEACH Grant, and Direct Loan funds, other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in students records in COD. Likewise, all Direct Loan funds, other than funds that are being returned to stay in compliance with the excess cash requirements, must be offset by downward reductions in borrowers' loans in COD.

All returns of Pell funds previously disbursed (unclaimed credit balances) must be offset by reductions in COD.

Returning funds from an audit or program review

If, as a result of a program review or audit, a school is required to repay FSA funds, a copy of its Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) letter is sent to ED's Receivables and Cash Receipts Team (RCRT) where an account receivable is established for the school. The Department will then, through its billing agent, bill the school for the disallowed expenditures, accrued interest, and penalties, if any. Payment instructions will be included with the bill.

- If a school owes ED \$100,000 or more, it must remit payment through its financial institution by FEDWIRE.
- If a school owes ED less than \$100,000 it must remit payment by check to ED's billing agent.

A school may not reduce amounts reported as net drawdowns on its G5 Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any FSA funds returned for this purpose will not be credited to a school's G5 account.

Unless otherwise directed by the FADL or FPRD letter, a school may not adjust its prior-year FISAPs or Federal Pell Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review. Also, the school should send Stafford/PLUS repayments directly to the appropriate FFEL Program lender(s), or to the Direct Loan Servicing Center.

Returning DL funds that can't be disbursed within three days

A school that has drawn down more funds than it can disburse due to changes in students' status between the drawdown and disbursement date would need to return the funds if they could not disburse them within the allowed timeframe. However, such returns would not be offset by reductions in the students' records in COD.

Returning Funds by Check

(These instructions do not apply to returning funds from an audit or program review.)

If exceptional circumstances require that you return Pell or Campus-Based funds by check you must –

1. use a separate check for each award year; and
2. note the school's D-U-N-S number and the appropriate Program Award Number (Pell Grant Award Number) on the check.

The G5 lockbox address for Pell and Campus-Based funds is:

U.S. Department of Education
P.O. Box 979053
St. Louis, Missouri 63197-9000

If exceptional circumstances require that you return Direct Loan funds by check, you must –

1. use a separate check for each award year;
2. note the school's D-U-N-S number, Direct Loan school code, and award year on each check; and
3. provide the information included on the **Direct Loans Return of Cash** (found on the next page) with each check.

The address for returning Direct Loan funds by check is:

U.S. Department of Education
Attention Refunds of Cash
P.O. Box 9001
Niagara Falls, New York 14302



Direct Loan Refunds of Cash

1. Enter the required information. Failure to provide the required information may prevent your check (or checks) from being processed correctly.

School Name: _____ Direct Loan (G/E) Code: _____

Name/Title: _____ Telephone #: _____

E-mail Address: _____ Servicer (if applicable): _____

Check Date: _____ Check #: _____ Amount: _____

2. Check (✓) the award year for which you are returning Direct Loan Refunds of Cash. If you are returning funds for more than one award year, you must enclose a separate form and a separate check for each award year.

2009/2010	_____
2008/2009	_____
2007/2008	_____
2006/2007	_____
2005/2006	_____
2004/2005	_____
2003/2004	_____
2002/2003	_____

3. Sign and date the form.

Contact's Signature: _____ Date: _____

4. Mail this completed form and your Direct Loan Refunds of Cash check (or checks) to:

U.S. Department of Education
Attention: Refunds of Cash
P.O. Box 9001
Niagara Falls, NY 14302

Revised January 2009

Returning funds after 240 days

In all cases, a school will have to request permission to make a change to the FISAP after December 15 following the close of the award year.

If Pell Grant funds must be returned after 240 days, a school must:

- enter the student's revised Pell Grant award in COD;
- return the funds to the Department through G5, if applicable; and
- make the appropriate change to the FISAP.

Note that for Pell Grant funds from a prior award year, a school may not use the funds for an eligible student in the current year.

If FSEOG funds must be returned after 240 days, a school must:

- enter the student's revised FSEOG award both in the individual student's account and the school's FSEOG ledger;
- either return the funds to the Department through G5, OR carry them forward to the next award year; and
- make the appropriate change to the FISAP.

If Perkins Loan funds from a prior award year must be returned after 240 days, a school must:

- reimburse its Perkins Loan fund;
- report those funds as income in Part III, Section A of the FISAP; and
- reduce the student's Perkins Loan balance and make an accounting entry to tie that reduction to the journal entry for the aforementioned reimbursement of its Perkins Loan fund.

The school should not make any changes to the student's Perkins promissory note.

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account. If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

Important

Together with your check for the funds you are returning, you must include, **on school letterhead**, the following information:

1. The borrower's name,
2. The borrower's social security number,
3. The loan's unique CommonLine ID,
4. The type of loan (subsidized, unsubsidized, PLUS, etc.),
5. The period for which the loan was certified,
6. The scheduled & actual date of the disbursement,
7. The amount of the disbursement,
8. The amount being returned,
9. The reason the funds are being returned (cancellation, overpayment, withdrawal, or failed to begin class),
10. The school OPEID, and
11. The name and phone number of the school official returning the funds.

Important

This information is for school use only.

Returning funds on Direct Loans and FFEL loans purchased/serviced by the Department

The Department has implemented programs through which it purchases Federal Family Education Loan (FFEL) Program loans from FFEL loan holders. When these purchases occur, the Department becomes the owner and servicer of the loans. Both the prior FFEL loan holder and the Department correspond with an affected borrower upon purchase of a loan.

There are several avenues available to schools that need to return funds on loans that have been purchased by the Department. The first is through the lender that originated the student's loan. Many organizations offer a service to their schools where you can use their website to return the funds and then the originator/lender will forward the payments to the appropriate Department servicer. Explore this option first. A second method is to access NSLDS directly and determine which of several servicer managing FFEL loans purchased by and Direct Loans originated by the Department is servicing the loans for which you are returning funds. You can then forward the funds directly to the servicer yourself.

Once your in NSLDS, select "**Aid**," then identify the student and select "**Loan History**." Under Loan History, the current loan will be listed at the top. Use the field "**Servicer**" to identify the organization to which you will be returning funds.

Contact Information for Loan Servicers

Servicer Name:	SALLIE MAE
Servicer Code:	700578
GA Code:	578
Payment Address:	*Department of Education P.O. Box 740194 Atlanta, GA 30374-0194
Correspondence Address:	*Sallie Mae PO Box 59008 Panama City, FL 32412-9008
Website:	www.SallieMae.com
Phone Number:	888-272-4665
Email:	collegeserv@salliemae.com

*If a school prefers to utilize ACH or Auto-debit for a return funding method and/or an electronic data transmission (e.g., web/CTSF), please contact the phone number or email address provided for details.

Servicer Name: **ACS**
 Servicer Code: 700577
 GA Code: 577
 Address for Payments and Correspondence:
 U.S. Department of Education
 P.O. Box 7063
 Utica, NY 13504-7063
 Phone: 866-938-4750
 email: emailsupport@ed-servicing.com
 website: www.ed-servicing.com

Servicer Name: **PHEAA**
 Servicer Code: 700579
 GA Code: 579
 Payment Address: School Payments, Department of ED
 Federal Loan Servicing
 P.O. Box 530264
 Atlanta, GA 30353-0210
 Correspondence Address: Federal Loan Servicing
 Attn: Education Services Group
 1200 North 7th Street
 Harrisburg, PA 17102
 Phone: 800.655.3813
 email: schoolsupport@myfedloan.org
 website: www.myfedloan.org

Servicer Name: **Great Lakes Educational Loan Services**
 Servicer Code: 700581
 GA Code: 581
 Address for Correspondence: 115 1st Avenue SW
 Aberdeen, SD 57401
 Address for Payments: Department of Education
 P.O. Box 740199
 Atlanta, GA 30374-0199
 email: FSALoanServicing@glhec.org
 Phone Number: 888-536-0384

Servicer: **NELNET**
 Servicer Code: 700580
 GA Code: 580
 Address for Payments and Correspondence:
 Nelnet School Service Center
 PO Box 82596
 Lincoln, NE 68501-2596
 Website: www.nelnet.com
 email: ssc@nelnet.net
 Phone Number: 866-463-5638

Important

**This information is for
school use only.**

Address for NELNET Overnight Delivery:

Nelnet School Service Center
 121 South 13th Street, Suite 201
 Lincoln, NE 68508